

Message Text

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TAGS: ECON, LU

SUBJ: ECONOMIC CONDITIONS IN LUXEMBOURG

REF: LUX 0694

1. SUMMARY: RECENT SEPARATE LUNCHEON MEETINGS HOSTED BY AMBASSADOR FARKAS WITH AMERICAN COMPANY EXECUTIVES AND BANKERS PROVIDED OPPORTUNITIES FOR AN EXCHANGE OF VIEWS ON THE LOCAL ECONOMIC SCENE. HIGHLIGHTS OF THE DISCUSSIONS ARE PROVIDED BELOW. WHEREAS THE BANKS ARE ENJOYING THE REBOUND IN THE EUROBOND MARKET, THE MANUFACTURERS ARE SUFFERING IN VARYING DEGREES FROM THE OVERALL EUROPEAN SLUMP. THE UNCLASSIFIED

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LUXEMBOURG STEEL INDUSTRY IS ONE OF THE MAIN VICTIMS OF

THE CURRENT RECESSION. END SUMMARY.

2. THE EUROPEAN STEEL CRISIS IS AT ITS MOST EXTREME IN LUXEMBOURG. A DROP OF 28 PERCENT IN STEEL PRODUCTION IN 1975 COMPARED WITH THE SAME TEN-MONTH PERIOD IN 1974, COMBINED WITH A FALL IN PRICES BELIEVED TO BE IN THE RANGE OF 40 PERCENT, HAVE MADE THE VITAL LUXEMBOURG STEEL SECTOR A VERY DEPRESSED INDUSTRY. LOW ORDER BOOKS SHOW NO SIGNS OF RECOVERY. THE STEEL INDUSTRY ACCOUNTS FOR 25 PERCENT OF LUXEMBOURGS GNP AND IT ALONE WILL CAUSE A 7 PERCENT DECLINE IN GNP FOR 1975. AN ECONOMIC REVIVAL IN GERMANY, THE KEY CONSUMER FOR LUXEMBOURG STEEL, HAS YET TO BE SIGHTED, AND SO RECOVERY PLUS LAG FOR ORDERS COULD CARRY THE LOCAL RECESSION WELL INTO THE SUMMER OF 1976. CERTAINLY VERY FEW OBSERVERS FORESEE IMPROVEMENT BEFORE THEN.

3. BUSINESS FOR THE AMERICAN MANUFACTURERS LOCATED IN LUXEMBOURG HAS, OF COURSE, ALSO BEEN AFFECTED BY THE OVERALL EUROPEAN SLUMP. NONETHELESS, THE GENERAL PICTURE IS POSITIVE WITH FEW VISIBLE SIGNS OF ANXIETY. ONE OF THE MAJOR MULTINATIONALS, MONSANTO, IS PROCEEDING WITH NEW INVESTMENT PLANS AND IS PROJECTING A MAJOR EXPANSION. THE GENERAL MOTORS CONSTRUCTION VEHICLE SUBSIDIARY IS ALSO DOING REASONABLY WELL. MOST OTHERS ARE HOLDING THEIR OWN AND ABLE TO AWAIT A GENERAL EUROPEAN UPTURN WITH EQUANIMITY. SOME, SUCH AS THE LARGEST US EMPLOYERS, DUPONT AND GOODYEAR, VOICE CONCERN ABOUT INCREASED OPERATING COSTS, SPECIFICALLY THE JUMPS IN WAGES AND BENEFITS DURING 1974 AND 1975, WHICH NOW THREATEN COMPETITIVENESS WITH PRODUCERS ELSEWHERE IN EUROPE. THE WAGE BILL IS BECOMING A SENSITIVE TOPIC NOW THAT THE BOOM IS GONE.

4. THE BANKING COMMUNITY IN CONTRAST IS ENJOYING A RECORD YEAR IN THE EUROBOND MARKETS. IN FACT, 1975 SHOULD SEE THE BEST LUXEMBOURG BANKING STATISTICS SINCE 1972, SURPASSING THIS PREVIOUS RECORD ANNUAL TURNOVER OF FIVE BILLION DOLLARS. THE INTERNATIONAL BANKS NOW ENJOY THE DUBIOUS DISTINCTION OF BEING UNCLASSIFIED

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LUXEMBOURG'S SECOND LARGEST TAXPAYER, THE STEEL INDUSTRY HAVING FALLEN TO THE THIRD PLACE IN THIS VERY OFF YEAR. (RADIO-TELEVISION LUXEMBOURG'S POSITION AS TOP TAXPAYER REMAINS UNCHALLENGED). ONE BANKER'S INSIGHT INTO GOL BUDGETARY (OR CASH FLOW) PROBLEMS IS THAT THE TAX COLLECTOR SEEMS MORE EAGER THIS YEAR. THE WHITE COLLAR WAGE BILL IS A SUBJECT OF INCREASING CONCERN TO THE US BANKS. ONE BANKER SAID THAT WAGES IN

LUXEMBOURG WERE HIGHER THAN IN ANY OTHER OF ITS MANY OVERSEAS OPERATIONS OR AT ITS HOME BASE IN THE US.

5. BOTH BANKERS AND BUSINESSMEN ACKNOWLEDGE THEIR SHARE OF RESPONSIBILITY FOR LOCAL ESCALATION OF WAGES. THE BANKS IN PARTICULAR FREELY CONFESSED THAT THEY PAID OVER THE TOP DOLLAR FOR EXPERIENCED STAFF WHEN SETTING UP IN LUXEMBOURG. THANKS TO THE LOCAL SYSTEM OF INDEXED WAGES THEY ARE NOW FEELING THE PINCH WITH EVERY PAYCHECK. THE BUSINESSMEN GENERALLY AGREED THAT THE WAGE SPIRAL HAD TO BE SLOWED OR LUXEMBOURG'S COMPETITIVENESS AND ATTRACTIVENESS TO DIRECT INVESTORS COULD BE SERIOUSLY COMPROMISED. ALTHOUGH INFLATION IS AT ABOUT 10.5 PERCENT LOCALLY, A RELATIVELY REASONABLE RATE IN 1975 EUROPE, IT IS AND PROMISES TO REMAIN CONSIDERABLY LOWER IN GERMANY, A MARKET WHICH CANNOT BE JEOPARDIZED. MOST ARGUED THAT FUTURE INVESTMENT WOULD BE HELD IN LIMBO UNTIL THE GOL SHOWED ITS COLORS ON INFLATION/EMPLOYMENT/EXPANSION ISSUES.

6. COMMENT: THE ECONOMIC CRISIS IS REAL ENOUGH BUT SO FAR MOST LUXEMBOURG WORKERS HAVE BEEN SHELTERED FROM ITS EFFECTS. TRADITIONALLY, LUXEMBOURG LABOR UNIONS ARE AMONG EUROPE'S MOST REASONABLE. THEIR SENSE OF REALITY AND COMMUNITY SPIRIT WILL BE TESTED IN A ROUND OF GOVERNMENT/INDUSTRY/UNION TALKS WHICH HAVE JUST STARTED. FACED WITH ITS WORST YEAR IN MEMORY, ARBED, THE COUNTRY'S MAJOR STEEL PRODUCER AND LARGEST EMPLOYER, HAS ANNOUNCED THE CANCELLATION OF ALL BONUSES FOR 1975. THE THREAT TO THESE NOW TRADITIONAL - BUT STRICTLY SPEAKING NOT CONTRACTUAL - BONUSES HAS ALREADY BEEN DENOUNCED BY THE UNIONS. DESPITE THIS INCIDENT IT IS EXPECTED THAT TACTICS WILL CEDE PLACE TO CURRENT HARD UNCLASSIFIED

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FACTS OF ECONOMIC LIFE IN LABOR CONTRACT NEGOTIATIONS.
PHILLIPS

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